

ANNUAL FINANCIAL REPORT

2001

hannover life re[®]

hannover **life re[®]**

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STAFF LISTING

The Directors and Shareholders of Hannover Life Re of Australasia Ltd would like to thank all members of staff and contractors for their valuable contributions throughout the past year:

Executive

S. Willcock
M. Glase
T. Grogan
C. Schapiro

Actuarial

R. Berry
M. deVilliers
R. Quan

Life Administration

A. Boschman
J. De Jong
N. Kerr
M. Kessey
L. Lennaen
K. Leonard
V. Linsdell
C. Malone
S. Teuma
L. Workman

Claims

S. Barrett
E. Mayer
A. Nasr
B. Tanna
A. Veltman

Disability Products

J. Kalfas
H. Kasif
L. Talevski

Finance Division

Financial Services

K. Howarth
A. Montemayor
D. Tallack

Word Processing

N. Bruzzese
D. Hancock
D. McMurray
S. Tiltman

Information Services

W. Dawson
M. Donnelly
E. Russell
P. Van Cornewal
S. Wilson

Marketing & Underwriting

Marketing

C. Caiger
K. Nugent
M. Rickli

Underwriting

M. Carr
R. Roozendaal

COMPANY PARTICULARS

Head Office

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70 Phillip Street, Sydney, NSW, 2000
Telephone: (02) 9251 6911
Facsimile: (02) 9251 6862
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Directors

D.J. Docherty, FCPA, Chairman
W. Zeller, Deputy Chairman
Dr. W.S. Becke
D.A.K. Ferguson, BA, LLM
Dr. E.A. Koenig
R. Littlewood, BEc, LLB, CA
A.S. Wickenden, FIAA, Dip FP
S. Willcock, BA, FIA, FIAA, ASA,
FNZSA, Managing Director

Executive

S. Willcock, BA, FIA, FIAA, ASA, FNZSA,
Managing Director
M.P. Glase, BEc, FIAA, FNZSA,
Appointed Actuary
T.N. Grogan, MNIA, General Manager
(Marketing)
C. Schapiro, CA, General Manager (Finance) &
Secretary

Bankers

National Australia Bank Limited

Solicitors

Phillips Fox

Auditors

D.F. Findlater, A partner of the firm of KPMG

The Directors have pleasure in presenting their report together with the financial report of the entity for the year ended 31 December 2001 and the auditor's report thereon.

Directors

The Directors of the entity at any time during or since the end of the financial year are:

Mr Derrick John Docherty, FCPA
Chairman
Independent Non-Executive Director
Age 67

Director of Coal & Allied Industries Ltd and Chairman of Rice Marketing Board for the State of NSW. Director and Chairman since 1993.

Mr Wilhelm Zeller
Deputy Chairman
Non-Executive Director
Age 57

Mr Zeller is Chairman of the Executive Boards of Hannover Re and E + S Rück. Director since 1996 and Deputy Chairman since 1997.

Dr Wolf Siegfried Becke
Non-Executive Director
Age 55

Dr Becke is a member of the Executive Boards of Hannover Re and E + S Rück. Director since 1994.

Mr David Arnold Keith Ferguson, BA, LLM
Independent Non-Executive Director
Age 66

Directorships include Astra Pharmaceuticals Proprietary Limited and Scania Australia Proprietary Limited. Mr Ferguson is a practising solicitor and is a partner of Minter Ellison. Member of the Board Audit Committee and Board Compliance Committee. Director since 1993.

Mr Herbert Karl Haas
Non-Executive Director
Age 47

Mr Haas was a member of the Executive Boards of Hannover Re and E + S Rück. Director since 1994. Resigned as a Director on 31 January 2002.

Dr Elke Anette Koenig
Non-Executive Director
Age 48

Dr Koenig is a deputy member of the Executive Boards of Hannover Re and E + S Rück. Appointed as a Director on 31 January 2002.

Mr Ross Littlewood BEc, LLB, CA
Non-Executive Director
Age 41

Mr Littlewood is a Chartered Accountant and has had over 20 years experience in the reinsurance industry. Chairman of the Board Audit Committee and Board Compliance Committee. Director since 1994.

Mr Alec Sydney Wickenden, FIAA, Dip FP
Independent Non-Executive Director
Age 70

Mr Wickenden has had over 40 years experience in the life insurance and reinsurance industries. Member of the Board Audit Committee and Board Compliance Committee. Director since 1993.

Mr Stephen Willcock, BA, FIA, FIAA, ASA, FNZSA
Managing Director
Age 50

Mr Willcock has had 18 years experience in the life reinsurance industry. Member of the Board Audit Committee and Board Compliance Committee. Managing Director since 1993.

Directors' Meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the entity during the financial year are:

Director	Directors' Meetings		Board Audit Committee		Board Compliance Committee	
	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held
Mr D. J. Docherty	4	4	–	–	–	–
Mr W. Zeller	1	4	–	–	–	–
Dr W. S. Becke	3	4	–	–	–	–
*Mr D. A. K. Ferguson	3	4	2	2	2	2
Mr H. K. Haas	1	4	–	–	–	–
*Mr R. Littlewood	4	4	2	2	2	2
*Mr A. S. Wickenden	4	4	2	2	2	2
*Mr S. Willcock	4	4	2	2	2	2

*Member of Board Audit Committee and Board Compliance Committee

The role of the Board Audit Committee is to review that there has been compliance with the entity's accounting policies and internal control framework and the industry's regulatory environment and to advise the Board of Directors on the quality and reliability of financial information for inclusion in the financial report.

The role of the Board Compliance Committee is to assist the Board of Directors to deal with consumer related issues which arise in the course of the entity's business and to ensure that the entity has proper systems and management controls in place to enable continuous compliance with the Code of Practice and the disclosure regime.

Principal Activities

The principal activity of the entity during the course of the financial year was the transaction of life reinsurance business. The entity provides risk carrying and associated services to insurance offices transacting life and disability insurance risk business. It also provides risk carrying and associated services to trustees of superannuation plans in respect of group life insurances.

Review of Operations

Profit from ordinary activities before tax amounted to \$13M for the year, a reduction of \$2.9M on the previous year.

After allowing for a tax charge of \$3M, the after tax profit from ordinary activities of \$10M for the year is regarded by the Directors as an acceptable result in the light of the tough and competitive market conditions in which the life reinsurance industry continues to operate.

Dividends

Dividends paid by the entity to Members since the end of the previous financial year were:

	Cents per Share	Total Amount \$'000
As proposed and provided for in last year's report:		
– Interim		
– Ordinary Shares	60.9756	5,000

The dividend which was paid on 30 March 2001 was unfranked.

No dividend has been provided for in the 2001 financial report.

State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the entity that occurred during the financial year under review.

Events Subsequent to Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the entity, the results of those operations, or the state of affairs of the entity, in future financial years.

Likely Developments

The entity will continue to seek to produce above average returns on shareholders' equity and to achieve long term growth in its business consistent with increased profits on a year to year basis.

Indemnification and Insurance of Officers

Indemnification

The entity's constitution requires it to indemnify all current and past Directors and Officers of the entity, to the fullest extent permitted by the law, against a liability incurred by that person as a Director or Officer of the entity, including without limitation legal costs and expenses incurred in defending an action.

D. J. DOCHERTY
Chairman

Insurance Premiums

Since the end of the previous financial year the entity has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses insurance contracts for current and former Directors and Officers including Executive Officers of the entity. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' Liability insurance contract, as such disclosure is prohibited under the terms of the contract.

Rounding Off

The entity is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors.

Sydney
28 March 2002

This statement outlines the main Corporate Governance practices that were in place throughout the financial year, unless otherwise stated.

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall Corporate Governance of the entity including:

- setting the entity's strategic direction;
- establishing goals for management and monitoring the achievement of these goals.

Board Processes

The Board is responsible for identifying areas of significant business risk and ensuring appropriate and adequate controls and monitoring procedures are in place, in addition to ensuring that legal and regulatory requirements are being complied with. To assist it in the execution of its responsibilities, the Board has established an Audit Committee and Compliance Committee with their own Charters.

The Board delegates the operation and administration of the entity to the Managing Director who is accountable to the Board.

The full Board currently holds four scheduled meetings each year, plus any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

Composition of the Board

The names of the Directors of the entity are set out in the Directors' Report. The Board currently comprises eight Directors with a broad range of skills and experience appropriate to the entity's business. In

accordance with the entity's constitution Directors must retire after three years, at which time, if they are eligible, they may offer themselves for re-election.

Audit Committee

The role of the Audit Committee is documented in a Charter which is approved by the Board of Directors. In accordance with this Charter, the majority of the members of the Committee must be Non-Executive Directors. The role of the Committee is to advise on the establishment and maintenance of a framework of internal controls and appropriate ethical standards for the management of the entity.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report. In addition the performance of the auditors and the adequacy of external audit arrangements are reviewed by the Committee.

Compliance Committee

The role of the Compliance Committee is documented in a Charter which is approved by the Board of Directors. In accordance with the Charter, the majority of the members of the Committee must be Non-Executive Directors. The role of the Committee is to assist the Board of Directors to deal with consumer related issues which arise in the course of the entity's business.

Remuneration of the Board and Senior Management

Remuneration of senior management including the Managing Director is reviewed annually by the Board and the parent company.

Directors' remuneration is determined on a bi-annual basis by the shareholders.

Financial Supervision

The Life Insurance Act of 1995 governs the principal activities of the entity and identifies responsibilities of the Board with respect to operations. In addition the entity will be required to comply with the provisions of the Financial Services Reform Act (which commenced on 11 March 2002). The Board seeks to discharge its responsibilities in a number of ways:

- a five year business plan and budget is reviewed and approved by the Board annually;
- quarterly Board Meetings are held to monitor performance against budget and financial benchmarks;
- Directors are responsible for ensuring financial statements which are presented to the parent company and regulatory bodies are prepared in accordance with Australian Accounting Standards Board (AASB) 1038 "Life Insurance Business" and Prudential Rule Number 35 on Financial Statements issued by APRA and the Corporations Act 2001;
- the entity's appointed actuary is responsible for investigating the financial condition of the entity including the valuation of policy liabilities, solvency and capital adequacy requirements in accordance with the standards applied by the Life Insurance Actuarial Standards Board and for providing advice to the Board as required under the Life Insurance Act 1995;
- a Statement of Investment Policy is approved by the Board. Investment management decisions within the guidelines of the Policy are delegated to the investment manager in accordance with an Investment Management Agreement.

Ethical Standards

All Directors, managers and employees are required to act with the utmost integrity and objectivity in their dealings with business partners, regulators, the community and employees, striving at all times to enhance the reputation and performance of the entity.

STATEMENT OF FINANCIAL PERFORMANCE*for the Year Ended 31 December 2001*

	Note	2001 \$'000	2000 \$'000
Revenue from Ordinary Activities			
Insurance Premium Revenue	8	261,030	266,227
Outwards Reinsurance Expense		(125,992)	(72,027)
		135,038	194,200
Investment Revenue	9	23,135	42,829
Other Income/(Expenses)	10	2,136	(68)
Total Revenue from Ordinary Activities		160,309	236,961
Expenses from Ordinary Activities			
Claims Expense	11,1(b)	(127,467)	(526,266)
Reinsurance Recoveries Revenue	8	68,402	61,642
		(59,065)	(464,624)
Administration Expenses	12	(44,750)	(68,328)
(Increase)/Decrease in Net Policy Liabilities	13	(43,494)	311,906
Total Operating Expenses		(147,309)	(221,046)
Profit from Ordinary Activities before Income Tax Expense	7	13,000	15,915
Income Tax Expense Relating to Ordinary Activities	26	(3,000)	(2,185)
Profit from Ordinary Activities after Income Tax Expense	14	10,000	13,730
Total Changes in Equity from Non-Owner Related Transactions Attributable to Members of the Entity		10,000	13,730

The statement of financial performance is to be read in conjunction with the attached notes.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2001

	Note	2001 \$'000	2000 \$'000
Assets			
Cash		10,462	16,165
Outstanding Premiums		22,921	25,067
Receivables	16	7,273	4,684
Investment Assets			
Debt Securities – Bank Bills & Deposits		73,694	81,614
Equity Securities	17(a)	9,974	21,362
Deposits Held by Ceding Companies	17(b)	—	82
Debt Securities – Other	17(c)	287,210	220,373
Property	17(d)	4,600	4,250
Total Investment Assets		375,478	327,681
Other Assets	19	30	32
Plant and Equipment	18	1,008	1,076
Gross Policy Liabilities Ceded Under Reinsurance	13	51,596	43,584
Total Assets		468,768	418,289
Liabilities			
Creditors	20	39,425	54,301
Income Tax Provision	26(d)	9	4
Provision for Deferred Income Tax	26(e)	5,177	2,181
Provisions	21	1,419	1,162
Subordinated Debt	15	17,722	17,131
Gross Policy Liabilities Assumed Under Reinsurance	13	246,018	194,512
Total Liabilities		309,770	269,291
Net Assets			
Contributed Equity	22	10,000	10,000
Retained Profits	3	148,998	138,998
Total Equity		158,998	148,998

The statement of financial position is to be read in conjunction with the attached notes.

STATEMENT OF CASH FLOWS *for the Year Ended 31 December 2001*

	Note	2001 \$'000	2000 \$'000
Cash Flows from Operating Activities			
Premiums received		263,218	272,252
Policy payments		(119,798)	(520,281)
Retrocession premiums paid		(75,106)	(61,887)
Commissions paid		(71,929)	(58,449)
Payments to suppliers and employees		(7,828)	(6,733)
Interest paid		(819)	(1,103)
Income tax paid		—	(4)
Retrocession and other recoveries received		36,732	52,068
Interest & rent received		17,807	39,061
Other income received		2,025	741
Other receipts		5	—
Net cash provided by/(used in) operating activities	27	44,307	(284,335)
Cash Flows from Investing Activities			
Purchase of investments		(219,929)	(53,795)
Proceeds from sale of investments		167,084	381,881
Deposits repaid by ceding companies		82	—
Loans recovered		13	49
Payments for plant & equipment		(560)	(461)
Proceeds from sale of plant & equipment		278	186
Net cash (used in)/provided by investing activities		(53,032)	327,860
Cash Flows from Financing Activities			
Dividends paid		(5,000)	—
Net cash flows used in financing activities		(5,000)	—
Net (decrease)/increase in cash held		(13,725)	43,525
Cash at the beginning of the financial year		97,779	54,332
Effects of exchange rate changes on the opening balance of cash		102	(78)
Cash at the End of the Financial Year	27	84,156	97,779

The statement of cash flows is to be read in conjunction with the attached notes.

1. Summary of Significant Accounting Policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with:

- Applicable Accounting Standards including AASB1038 which deals with Life Insurance Business.
- Prudential Rule Number 35 (PR35) on Financial Statements issued by the Australian Prudential Regulation Authority (APRA).
- Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.
- The Corporations Act 2001.

The assets, liabilities, revenues and expenses of the entity are measured on the basis of net market value and net present value. The accounting policies adopted are consistent with those of the previous year.

Some line items and sub-totals reported in the previous financial period have been reclassified and repositioned in the financial statements as a result of the first time application of the revised Australian Accounting Standards AASB 1018 "Statement of Financial Performance", AASB 1034 "Financial Report Presentation and Disclosures", and the new AASB 1040 "Statement of Financial Position" and are effective for the first time on 31 December 2001.

Adoption of these standards has resulted in the following:

- The reconciliation of the opening retained profits to closing retained profits has been transferred from the face of the Statement of Financial Performance to Note 3.
- Income tax liabilities are now disclosed as a separate line item on the face of the Statement of Financial Position.

Comparative Amounts

Comparative amounts have been reclassified to accord with the changes in presentation made in 2001, except where otherwise stated.

Activities of Life Insurance Operations

The life insurance operations of the entity are conducted within separate statutory funds as required by the Life Insurance Act 1995 and are reported in aggregate with the shareholders' fund in the statement of financial performance, statement of financial position and statement of cash flows.

The life insurance operations consist of non-investment linked business only. All business written by the entity is non-participating and all profits and losses from non-participating business are allocated to the shareholders.

Non-investment linked business is business in which the entity issues a policy contract where the insured benefit is not directly linked to the market value of the investments held, is payable on death, or on the occurrence of a contingency dependent on the termination or continuance of human life, or on the occurrence of injury or disability caused by accident or illness, and the financial risk of the occurrence of the event which crystallises the payment of the insured benefit is borne by the entity.

(b) Premiums and Claims

Premiums and claims have been classified as revenue and expense respectively as the entity only sells risk products. Premiums are recognised as revenue on an accruals basis. Claims are recognised when the liability to the policy owner under the policy owner contract has been established.

In 2000 the entity terminated a large block reinsurance arrangement that involved a (one-off) claim of \$358 million. This amount is included in the statement of financial performance as part of claims expense and is also reflected in the decrease in net policy liabilities in 2000.

(c) Liabilities

Policy liabilities are measured at net present values of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders (refer to Note 2). Applicable reinsurance recoveries are brought to account on the same basis as policy liabilities. Changes in policy liabilities are recognised in the statement of financial performance in the financial year in which they occur. Other liabilities are measured at net present values and changes in their net present values are recognised in the statement of financial performance as revenues or expenses in the financial year in which the changes occur.

(d) Assets

All assets with the exception of plant and equipment are measured at net market values as at the reporting date and changes in their net market values are recognised in the statement of financial performance as revenues or expenses in the financial year in which the changes occur. Plant and equipment is held by the shareholders' fund and is initially recorded at cost and depreciated on either a straight line or diminishing value basis over their estimated useful lives.

(e) Investments

(i) Valuation

Investments are shown in the financial statements at net market value as follows:

- (a) Unit trusts are valued at redemption prices quoted by the trust manager.
- (b) Fixed interest securities are valued by applying the current redemption yield for each security.
- (c) The market value of the freehold property comprising the owner occupied strata title is based on an annual valuation made by qualified external valuers.
- (d) Loans on mortgages to staff are recorded at outstanding principal balance less any provision for doubtful debts.

(ii) Investment Income

- (a) Interest, Rents and Unit Trust Distributions
Unit trust distributions are recognised as revenue on an entitlement basis. All other investment income is recognised on an accruals basis.
- (b) Realised and Unrealised Gains and Losses
The difference between net market values of investments at the previous reporting date (or cost of acquisition, if acquired during the financial year) and their net market values at the reporting date (or sale proceeds, if sold during the financial year) is recognised as revenue or expense in the statement of financial performance.
- (c) Investment income has been allocated between classes of business in the Australian statutory fund in proportion to the average capital adequacy liabilities of the classes of business of the fund.

(f) Policy Acquisition Costs

Acquisition costs relate to the fixed and variable costs incurred in acquiring new business during the financial year. They do not include the general growth and development costs incurred. The actual acquisition costs incurred are recorded in the statement of financial performance.

The appointed actuary, in determining the policy liabilities takes account of the deferral of policy acquisition costs and assesses the value and future recovery of these costs. As a result acquisition costs deferred are amortised over the period that they are deemed to be recoverable. The impact of this deferral is reflected in "change in policy liabilities" in the statement of financial performance.

The acquisition costs deferred are determined as the actual costs incurred subject to an overall limit that the value of future profits at inception cannot be negative. Acquisition losses are recognised at inception to the extent the latter situation arises.

(g) Basis of Expense Apportionments

Apportionments under Part 6, Division 2 of the Life Insurance Act 1995 have been made as follows:

Expenses directly identifiable with a particular fund are charged to that fund.

The balance of Australian expenses are apportioned between the Australian statutory fund and the shareholders' fund as follows:

- All expenses which are staff related are allocated in proportion to the estimated time involved in each fund;
- Investment management fees are apportioned according to the average cost of the fixed interest investment portfolio;
- Office rental and related costs are charged on the basis of space occupied.

Australian expenses are allocated to the Overseas statutory fund in the proportion that the Overseas gross premium revenue bears to total gross premium revenue.

All expenses, excluding investment management fees which are directly identifiable, have been apportioned between policy acquisition and policy maintenance with regard to the objective when incurring each expense and the outcome achieved. Expenses directly identifiable as policy acquisition, such as initial commission, have been allocated in accordance with accounts received from cedants. All other expenses have been apportioned between policy acquisition and policy maintenance according to appropriate cost drivers and an analysis of the time spent by each employee.

Expenses allocated to the Australian statutory fund have been apportioned between classes of business in the Australian statutory fund in accordance with the proportion that the total premium for each class bears to total premiums for both classes with the exception of interest paid which has been apportioned in the same manner as investment income (Note 1 (e)).

All expenses relate to non-participating business as the entity only writes this category of business.

(h) Income Tax

The entity adopts the liability method of tax effect accounting. Prior to 1 July 2000 the taxation of a life company was not based on the concept of profit nor the movement in statutory funds and therefore prima facie tax was not calculated.

The introduction of the New Business Tax System Act which commenced operation on 1 July 2000 effectively means that from 1 July 2000 life insurers are taxed on all of their profit. From that date income tax expense is calculated on profit from ordinary activities adjusted for permanent differences between taxable and accounting income (see note 26).

The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

(i) Foreign Currency

(i) Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

(ii) Translation of Controlled Foreign Entities

Assets and liabilities of the entity's self sustaining New Zealand branch are translated at the rates of exchange ruling at balance date. The statement of financial performance is translated at an average rate for the year. The effect of movements in exchange rates on the carrying amount of investments is included in their net market values, changes in which are recognised as part of investment revenue in the statement of financial performance. The effect of movements in exchange rates on the carrying amount of other assets and liabilities is shown as expense or revenue in the statement of financial performance.

(j) Goods and Services Tax (GST)

The entity is a provider of financial supplies with the result that the major portion of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is either included in the cost of the assets acquired or in the expense incurred. Where the revenue or expense is subject to GST and is recoverable from the ATO they are recognised net of the amount of GST.

Receivables and payables are stated in the statement of financial position with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis.

2. Summary of Significant Actuarial Methods and Assumptions

The effective date of the actuarial report on policy liabilities and solvency reserves is 31 December 2001. The actuarial report was prepared by Mr M. P. Glase BEc, FIAA, FNZSA on 14 March 2002. The actuarial report indicates that Mr Glase is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of AASB 1038 and the Life Insurance Act 1995 which includes applicable standards of the Life Insurance Actuarial Standards Board (LIASB).

Disclosure of Assumptions and Methods

The policy liabilities have been calculated using methods in accordance with AASB 1038 and the Actuarial Standard on Valuation (AS1.02) issued by the LIASB.

The actuarial standards require that the policy liabilities equal the amount which together with future premiums and investment earnings will:

- (i) provide for the systematic release of planned margins as services are provided to policyholders and premiums are received; and
- (ii) meet the expected payment of future benefits and expenses.

The profit carrier used for the major product groups in order to achieve the systematic release of planned margins was as follows:

<u>Major Product Groups</u>	<u>Profit Carrier</u>
Traditional non-participating business, term insurance, group life insurance and disability insurance	Claims

The policy liabilities have been calculated using the methods set out below:

- (i) Conventional (whole of life) business
Liabilities were calculated by projecting cash flows for individual policies.

- (ii) Level premium term business

Where individual policy data was available from the ceding company, liabilities were calculated by projecting cash flows on each policy. Otherwise, liabilities were calculated using accumulation methods.

(iii) Claims in course of payment

Policy liabilities in respect of claims in course of payment were calculated by projecting cash flows for each individual claim.

(iv) Other business

Liabilities for all other business were determined using accumulation methods, including allowances for recoverable deferred acquisition expenses. The accumulation methods adopted were underpinned by a portfolio projection model to verify the adequacy of the results.

The assumptions set by the appointed actuary were best estimates of future experience in accordance with AASB 1038 and AS1.02. The key assumptions were as follows:

(a) Discount Rates

The discount rates assumed are derived from the expected long-term average rates of return for the relevant asset pools based on a neutral asset mix for each pool. Discount rates assumed are:

Australian statutory fund	2001: 6.0% to 6.1%
	2000: 5.9% to 6.0%
Overseas statutory fund	2001: 6.1%
	2000: 6.1%

(b) Inflation Rates

Inflation rates are primarily relevant to the determination of the outstanding claims liabilities. The assumptions have been based on current inflation rates, the outlook for inflation over the term of the liabilities and market implied inflation rates relative to the assumed investment earnings rates. Inflation rates assumed are:

Australian statutory fund	2.6% (2000: 2.3%)
Overseas statutory fund	2.6% (2000: 2.5%)

(c) Future Expenses and Indexation

Future maintenance expenses per policy have been assumed at current levels increased by the rate of inflation set out in (b) above.

There have been no changes in the above assumptions as compared to previous years.

(d) Rates of Taxation

Policy liabilities have been determined on a gross of taxation basis. The rates of taxation that apply to the entity are shown in Note 26.

(e) Mortality and Morbidity

Assumed claim rates were based on various published tables, primarily those most recently published by the Institute of Actuaries of Australia, adjusted in light of most recent industry experience, the entity's own experience and the appointed actuary's best estimate of future claims experience of the entity. For disability income claims, adjustments were made to the IAD 89-93 tabular termination assumptions based on the entity's own experience and recent industry experience.

(f) Discontinuances

Assumed discontinuance rates are based on recent actual discontinuance experience and the appointed actuary's best estimate of future discontinuance rates. Assumed rates may vary by sub-grouping within a category and vary according to the length of time tranches of business have been in force. Future rates of discontinuance for the major categories of business were assumed to be in the order of 15% – 20% p.a. (2000: 15% – 20% p.a.).

(g) Surrender Values

Surrender values are based on the surrender values included in the policy liabilities as advised by ceding companies. There has been no change in the basis as compared to previous years.

3. Retained Profits

	Statutory Funds \$'000	2001 Shareholders' Funds \$'000	Total \$'000	Statutory Funds \$'000	2000 Shareholders' Funds \$'000	Total \$'000
Retained profits at the beginning of the year	123,694	15,304	138,998	114,985	15,283	130,268
Profit from ordinary activities after income tax expense	9,037	963	10,000	12,709	1,021	13,730
Transfers of profits between funds	(2,000)	2,000	—	(4,000)	4,000	—
Dividends provided for or paid	—	—	—	—	(5,000)	(5,000)
Retained profits at the end of the year	130,731	18,267	148,998	123,694	15,304	138,998
Contributed equity	—	10,000	10,000	—	10,000	10,000
Total Equity	130,731	28,267	158,998	123,694	25,304	148,998
Components of shareholders' interests in statutory funds ⁽¹⁾ :						
– Retained profits (overseas and non-participating)	130,731			123,694		

(1) Shareholders' access to the retained profits and contributed equity in the statutory funds is restricted to the extent that these monies are required to meet solvency and capital adequacy standards under the Life Insurance Act 1995.

4. Reconciliation to Life Insurance Act 1995 Profit from Ordinary Activities & Retained Profit of Statutory Funds

(a) Allocation of Profit from Ordinary Activities

As the entity does not have any participating business, all profit is allocated to shareholders.

(b) Distribution of Retained Profits

Distribution of profits to the shareholders is governed by the requirements of Section 62 of the Life Insurance Act 1995 and the approval of the appointed actuary.

The entity has complied with the applicable provisions of Part 4 Division 6 of the Life Insurance Act 1995 and the provisions governing distribution of profit in its constitution.

	Policy Owners' Interests \$'000	2001 Shareholders' Interests \$'000	Statutory Funds Total \$'000	Policy Owners' Interests \$'000	2000 Shareholders' Interests \$'000	Statutory Funds Total \$'000
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(c) Details of Profits from Ordinary Activities

Life Insurance Act Profit from Ordinary Activities after Income Tax Expense	—	9,037	9,037	—	12,709	12,709
Sources of the Life Insurance Act profit from ordinary activities:						
From non-investment linked business – non-participating business	—	9,037	9,037	—	12,709	12,709
	—	9,037	9,037	—	12,709	12,709

4. Reconciliation to Life Insurance Act 1995 Profit from Ordinary Activities & Retained Profit of Statutory Funds (continued)

	Policy Owners' Interests \$'000	2001 Shareholders' Interests \$'000	Statutory Funds Total \$'000	Policy Owners' Interests \$'000	2000 Shareholders' Interests \$'000	Statutory Funds Total \$'000
(d) Details of Retained Profits						
Life Insurance Act Retained Profits at the Beginning of the Year	—	123,694	123,694	—	114,985	114,985
Life Insurance Act profit from ordinary activities after income tax expense	—	9,037	9,037	—	12,709	12,709
Transfer to shareholders' fund from non-participating business	—	(2,000)	(2,000)	—	(4,000)	(4,000)
Life Insurance Act Retained Profits at the End of the Year	—	130,731	130,731	—	123,694	123,694
Components of Life Insurance Act retained profits at the end of the year:						
– Shareholders' (overseas and non-participating)	—	130,731	130,731	—	123,694	123,694
	—	130,731	130,731	—	123,694	123,694

5. Solvency Requirements of the Statutory Funds

The solvency requirements are the amounts required to meet the prudential standards specified by the Life Insurance Act 1995 to provide protection against the impact of fluctuations and unexpected adverse circumstances.

The methodology and basis for determining solvency requirements are in accordance with the requirements of Actuarial Standard on Solvency (AS.2.02) under Section 65 of the Life Insurance Act 1995. The solvency requirements and ratios in respect of those requirements are as follows:

		Australian Statutory Fund \$'000	2001 Overseas Statutory Fund \$'000	Statutory Funds Total \$'000	Australian Statutory Fund \$'000	2000 Overseas Statutory Fund \$'000	Statutory Funds Total \$'000
Solvency Requirement ⁽¹⁾	"A"	317,265	7,550	324,815	308,285	11,981	320,266
Represented by:							
– Minimum termination value ⁽²⁾		252,080	5,203	257,283	213,699	6,255	219,954
– Other liabilities		64,845	1,941	66,786	68,248	4,386	72,634
– Approved subordinated debt (see note 15)		(17,722)	—	(17,722)	(17,131)	—	(17,131)
– Solvency reserve	"B"	18,062	406	18,468	43,469	1,340	44,809
		317,265	7,550	324,815	308,285	11,981	320,266
Assets Available for Solvency Reserve	"C"	77,674	7,919	85,593	64,242	7,557	71,799
Determined as:							
– Net assets		120,747	9,984	130,731	114,485	9,209	123,694
– Approved subordinated debt		17,722	—	17,722	17,131	—	17,131
– Excess of net policy liability over minimum termination value		(60,795)	(2,065)	(62,860)	(67,374)	(1,652)	(69,026)
		77,674	7,919	85,593	64,242	7,557	71,799
Solvency reserve % (B / (A-B)) x 100		6%	6%	6%	16%	13%	16%
Coverage of solvency reserve C/B		4.3 times	19.5 times	4.6 times	1.5 times	5.6 times	1.6 times

⁽¹⁾ The minimum level of assets required to be held in each statutory fund, prescribed by the Solvency Standard referred to in Part 5 of the Life Insurance Act 1995.

⁽²⁾ The minimum termination value is determined in accordance with the Solvency Standard and is the base figure upon which reserves against liability and assets risks are layered in determining the solvency requirement. The minimum termination value represents the minimum obligation of the entity to policy owners at the reporting date.

6. Disclosure on Asset Restrictions

Restrictions on assets

Investments held in the statutory funds can only be used within the restrictions imposed under the Life Insurance Act 1995. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distributions when solvency and capital adequacy requirements are met. Shareholders can only receive a distribution when the higher capital adequacy requirements are met.

2001
\$'000

2000
\$'000

7. Profit From Ordinary Activities

Profit from ordinary activities before income tax expense has been arrived at after charging the following items:

Interest paid or due and payable to related parties	821	784
Depreciation of plant & equipment	268	280
Loss on sale of plant & equipment	83	10
Amounts set aside to provision for employee entitlements	423	313
Lease rental expense – operating leases	50	83

8. Insurance Premium and Related Revenue

Non-Investment Linked Business

Inwards reinsurance premiums	261,030	266,227
Reinsurance recoveries	68,402	61,642
Total premium and related revenue	329,432	327,869

9. Investment Revenue

	Statutory Funds \$'000	2001 Shareholders' Funds \$'000	Total \$'000	Statutory Funds \$'000	2000 Shareholders' Funds \$'000	Total \$'000
Interest, dividend, rent and similar revenue sourced from:						
Equity securities	514	542	1,056	464	789	1,253
Debt securities	18,356	656	19,012	15,257	424	15,681
Property	—	18	18	—	17	17
Other	678	18	696	15,122	151	15,273
Total interest, dividend, rent and similar revenue	19,548	1,234	20,782	30,843	1,381	32,224
Net realised & unrealised gains by type of investment:						
Equity securities	640	683	1,323	39	57	96
Debt securities	476	204	680	9,774	385	10,159
Property	—	350	350	—	350	350
Total net realised & unrealised gains	1,116	1,237	2,353	9,813	792	10,605
Total investment revenue	20,664	2,471	23,135	40,656	2,173	42,829

	<i>Statutory Funds \$'000</i>	<i>2001 Shareholders' Funds \$'000</i>	<i>Total \$'000</i>	<i>Statutory Funds \$'000</i>	<i>2000 Shareholders' Funds \$'000</i>	<i>Total \$'000</i>
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10. Other Income/(Expenses)

Net profit/(loss) on currency exchange	109	2	111	(142)	—	(142)
Service fee income	42	—	42	73	—	73
Fee on recapture of business	1,983	—	1,983	—	—	—
Other	—	—	—	—	1	1
	2,134	2	2,136	(69)	1	(68)

11. Claims Expense

Inwards reinsurance claims	127,467	—	127,467	526,266	—	526,266
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Refer note 1(b)

12. Administration Expenses

General administration expenses						
– Policy acquisition						
– Net commission	9,042	—	9,042	10,591	—	10,591
– Other	1,269	—	1,269	1,556	—	1,556
– Policy maintenance						
– Net commission	26,671	—	26,671	49,076	—	49,076
– Other	5,865	911	6,776	5,468	729	6,197
– Investment management	167	4	171	120	4	124
	43,014	915	43,929	66,811	733	67,544
Interest – Subordinated debt	821	—	821	784	—	784
Total administration expenses	43,835	915	44,750	67,595	733	68,328

	<i>2001</i>		<i>2000</i>	
	<i>Statutory Funds Policy Acquisition \$'000</i>	<i>Statutory Funds Policy Maintenance \$'000</i>	<i>Statutory Funds Policy Acquisition \$'000</i>	<i>Statutory Funds Policy Maintenance \$'000</i>

Net commission is made up as follows:

Gross commission on inwards reinsurance premiums	15,052	81,981	13,803	77,411
Less: commission on outwards reinsurance expense	(6,010)	(55,310)	(3,212)	(28,335)
Net commission	9,042	26,671	10,591	49,076

13. Policy Liabilities

	2001 Statutory Funds \$'000	2000 Statutory Funds \$'000
(a) Movement in Policy Liabilities		
Reinsured policy liabilities:		
– Gross policy liabilities ceded	(51,596)	(43,584)
– Gross policy liabilities assumed	246,018	194,512
Net policy liabilities	194,422	150,928
A summary of the movement in net policy liabilities for the year ended 31 December is as follows:		
Opening balance	150,928	462,834
Net increase/(decrease) in policy liabilities	43,494	(311,906)
Closing balance	194,422	150,928

	Statutory Funds		
	2001 Current Basis ⁽²⁾ \$'000	Previous Basis ⁽¹⁾ \$'000	2000 Current Basis \$'000
(b) Components of Policy Liabilities			
<i>Non-Investment Linked Business</i>			
<i>Best estimate liability</i>			
– Value of future policy benefits	242,029	239,066	206,333
– Value of unrecouped acquisition expense	(47,607)	(55,296)	(55,405)
Net policy liabilities	194,422	183,770	150,928
Policy liabilities subject to capital guarantees	—	—	—

⁽¹⁾ Using the actuarial methods and assumptions relevant at the previous reporting date, but on current in force business with the exception of current discount rates.

⁽²⁾ Using the actuarial methods and assumptions relevant at the current reporting date on current in force business.

14. Statement of Sources of Profit From Ordinary Activities

	Statutory Funds \$'000	2001 Shareholders' Funds \$'000	Total \$'000	Statutory Funds \$'000	2000 Shareholders' Funds \$'000	Total \$'000
Shareholders' interest in profit from ordinary activities after income tax expense of the statutory funds is represented by:						
Emergence of planned margins of revenues over expenses released	3,237	—	3,237	9,122	—	9,122
Difference between actual and assumed experience	(1,278)	—	(1,278)	(4,277)	—	(4,277)
Investment earnings on shareholders' retained profits and contributed equity	7,078	—	7,078	7,864	—	7,864
Shareholders' interest in operating profit from ordinary activities after income tax expense of the statutory funds	9,037	—	9,037	12,709	—	12,709
Shareholders' fund profit from ordinary activities after income tax expense	—	963	963	—	1,021	1,021
Total profit from ordinary activities after income tax expense	9,037	963	10,000	12,709	1,021	13,730

	2001 \$'000	2000 \$'000
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15. Subordinated Debt

(a) Aggregate Amounts	2001 \$'000	2000 \$'000
Subordinated debt		
– Approved ⁽¹⁾	17,722	17,131

⁽¹⁾ Approved by APRA for the purposes of the Solvency Standard.

(b) Description

Total subordinated debt in the statutory funds consists of a loan of EURO 10,225,838 from Hannover Rückversicherungs-AG. The loan and interest payable thereon is subordinated to the policy liabilities and solvency requirements of the entity. The loan is interest bearing and is repayable, subject to the subordination conditions, on 31 December 2008. The amount received under the loan agreement has been invested in EURO bonds which mature in January 2009, in order to match the investment with the liability in the same currency. The loan has been applied to the solvency requirements as shown in Note 5.

16. Receivables

Reinsurance recoveries due from related parties	704	1,118
Other receivables due from related parties	—	7
Investment income accrued and receivable	6,508	3,543
Other receivables	61	16
	7,273	4,684

	2001 \$'000	2000 \$'000
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17. Investments

(a) Equity Security Investments		
<i>Equities held indirectly</i>		
Unit Trusts	9,974	21,362
(b) Deposits Held by Ceding Companies	—	82

The entity had in force in 2000 reinsurance agreements with ceding companies under which the reserves were deposited with the ceding companies and adjusted on an annual basis. Interest at an agreed rate was paid by the ceding companies on the amounts deposited with them.

(c) Debt Security Investments – Other		
<i>Interest bearing securities</i>		
National Government – secured	16,439	35,894
Semi-Government – secured	68,530	60,254
Private Sector – secured	149,172	42,774
– unsecured	52,936	81,305
<i>Loans</i>		
Staff – secured	133	146
	287,210	220,373
(d) Property Investments	4,600	4,250

An independent valuation of the property was carried out at 31 December 2001 by Mr M. S. Smallhorn FAPI and Mr S. L. Kearney AAPI of the firm Jones Lang LaSalle Advisory Services Pty Limited and is based on the open market value of the property for its existing use.

18. Plant and Equipment

Office furniture, fittings, equipment and motor vehicles at cost	1,602	1,789
Accumulated depreciation	(594)	(713)
	1,008	1,076

19. Other Assets

Prepayments and deferred costs	30	32
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20. Creditors

Current		
Reinsurance claims payable	20,619	21,993
Dividend payable to related parties	—	4,250
Other amounts due to related parties	2,033	—
Other creditors	16,773	28,058
	39,425	54,301

2001
\$'000

2000
\$'000

21. Provisions

Current

Employee entitlements	570	589
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Non-Current

Employee entitlements	849	573
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Total	1,419	1,162
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22. Contributed Equity

Issued and paid-up share capital

8,200,005 ordinary shares (2000: 8,200,005 ordinary shares) fully paid	10,000	10,000
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Cents
Per
Share

Total
Amount
\$'000

Date of
Proposed
Payment

23. Dividends

Dividends proposed or paid by the entity are:

2001	—	Nil	—
2000 Interim – ordinary	60.9756	5,000	30 March 2001

24. Statutory Fund & Segment Information

(a) Statutory Fund Information

The entity operates predominantly in the life reinsurance market in Australia and New Zealand. In accordance with the requirements of the Life Insurance Act 1995, the entity has established separate statutory funds to account for Australian and Overseas business written by the entity. Details of these statutory funds are as follows:

Type of Business	Major Products	Geographic Locations
Australian Statutory Fund		
Ordinary & Superannuation Non-Investment Linked Reinsurance Business	Term, Income Protection & Group Life	Australia
Overseas Statutory Fund		
Non-Specific Non-Investment Linked Reinsurance Business	Term, Income Protection & Group Life	Predominantly New Zealand

All statutory fund business written by the entity is non-participating.

	Australian Statutory Fund			Overseas Statutory Fund	All Statutory Funds
	Ordinary	Super- annuation	Total Australian	Non- Specific	Total
	\$'000	\$'000	\$'000	\$'000	\$'000

24. Statutory Fund & Segment Information (continued)

(b) Segment Information – Abbreviated Statement of Financial Performance for the Year Ended 31 Dec. 2001					
Revenue from Ordinary Activities					
Insurance premiums	153,370	99,503	252,873	8,157	261,030
Outwards reinsurance expense	(88,606)	(35,490)	(124,096)	(1,896)	(125,992)
Investment revenue	15,627	4,024	19,651	1,013	20,664
Other income	1,320	718	2,038	96	2,134
Total Net Revenue	81,711	68,755	150,466	7,370	157,836
Expenses from Ordinary Activities					
Claims expense	(61,221)	(51,880)	(113,101)	(14,366)	(127,467)
Reinsurance recoveries	43,125	15,150	58,275	10,127	68,402
Administration expenses	(28,736)	(12,883)	(41,619)	(2,216)	(43,835)
(Increase)/decrease in policy liabilities	(37,699)	(7,260)	(44,959)	1,465	(43,494)
Total Operating Expenses	(84,531)	(56,873)	(141,404)	(4,990)	(146,394)
(Loss)/Profit from Ordinary Activities before Income Tax Expense	(2,820)	11,882	9,062	2,380	11,442
Income tax expense attributable to profit from ordinary activities	1,804	(7,604)	(5,800)	3,395	(2,405)
(Loss)/Profit from Ordinary Activities after Income Tax Expense	(1,016)	4,278	3,262	5,775	9,037
Allocated to:					
Policy owners	—	—	—	—	—
Shareholders	(1,016)	4,278	3,262	5,775	9,037
(c) Segment Information – Abbreviated Statement of Financial Position as at 31 Dec. 2001					
Assets					
Debt securities – bank bills & deposits	45,818	18,796	64,614	—	64,614
Equity securities	3,536	1,451	4,987	—	4,987
Debt securities – other	193,532	79,394	272,926	6,674	279,600
Total Investment Assets	242,886	99,641	342,527	6,674	349,201
Gross policy liabilities ceded under reinsurance	33,954	17,676	51,630	(34)	51,596
Other assets	24,430	9,919	34,349	8,389	42,738
Total Assets	301,270	127,236	428,506	15,029	443,535
Liabilities					
Gross policy liabilities assumed under reinsurance	176,436	66,478	242,914	3,104	246,018
Other liabilities	41,076	23,769	64,845	1,941	66,786
Total Liabilities	217,512	90,247	307,759	5,045	312,804
Net Assets	83,758	36,989	120,747	9,984	130,731
Equity					
Shareholders' retained profits (overseas and non-participating)	83,758	36,989	120,747	9,984	130,731
Total Equity	83,758	36,989	120,747	9,984	130,731

25. Disaggregated Information by Fund

	2001				2000			
	Australian Statutory Fund \$'000	Overseas Statutory Fund \$'000	Shareholders' Fund \$'000	Total \$'000	Australian Statutory Fund \$'000	Overseas Statutory Fund \$'000	Shareholders' Fund \$'000	Total \$'000
Investment assets	342,527	6,674	26,277	375,478	291,464	11,058	25,159	327,681
Other assets	31,350	8,389	1,955	41,694	37,595	7,139	2,290	47,024
Policy liabilities ceded under reinsurance	51,630	(34)	—	51,596	41,002	2,582	—	43,584
Policy liabilities assumed under reinsurance	242,914	3,104	—	246,018	187,327	7,185	—	194,512
Other liabilities	64,845	1,941	1,966	68,752	68,248	4,386	2,145	74,779
Retained profits	117,747	12,984	18,267	148,998	114,485	9,209	15,304	138,998
Premium revenue	252,873	8,157	—	261,030	257,238	8,989	—	266,227
Investment revenue	19,651	1,013	2,471	23,135	39,404	1,252	2,173	42,829
Reinsurance recoveries	58,275	10,127	—	68,402	52,841	8,801	—	61,642
Outwards reinsurance expense	124,096	1,896	—	125,992	68,860	3,167	—	72,027
Claims expense	113,101	14,366	—	127,467	512,997	13,269	—	526,266
Other operating expenses	41,619	2,216	915	44,750	65,856	1,739	733	68,328
Profit from ordinary activities before tax expense	9,062	2,380	1,558	13,000	13,877	597	1,441	15,915
Profit from ordinary activities after tax expense	3,262	5,775	963	10,000	11,673	1,036	1,021	13,730
Transfer to shareholders' fund	—	(2,000)	2,000	—	—	(4,000)	4,000	—
Transfers between statutory funds	3,000	(3,000)	—	—	—	—	—	—

26. Income Tax

- (a) Prior to 1 July 2000 the income tax expense of the entity was partly determined on a product-basis and partly determined on a profit-basis and was calculated after aggregating various classes of business. The introduction of a new life tax regime from 1 July 2000 effectively means that the entity is taxed on all profit at new tax rates from that date. The rates of taxation applicable to the taxable income of significant classes of business are as follows:

Class of Business	2001	1/7/00–31/12/00	1/1/00–30/6/00
Ordinary life insurance business	30%	34%	39%
Other business (including accident and disability)	30%	34%	39%
Shareholder (general) funds	30%	34%	36%
New Zealand business	33%	33%	33%

26. Income Tax (continued)

(b) Taxation Basis

Australia

For Period 1 January 2001 – 31 December 2001

The principal elements for the calculation of the taxable income for 2001 (which also applied for the period from 1 July 2000 to 31 December 2000) are as follows:

Assessable income

1. Risk premiums.
2. Investment income.
3. Decrease in the value of risk policy liabilities.

Allowable deductions

The allowable deductions for each taxable class of business in Australia include:

1. Claims paid.
2. Acquisitions costs and management expenses.
3. Increase in the value of risk policy liabilities.

For Period 1 January 2000 – 30 June 2000

The principal elements for the calculation of the taxable income for each class of business for the period 1 January 2000 – 30 June 2000 were as follows:

Assessable income

1. Ordinary life insurance business – investment income
2. Complying superannuation business – investment income.
3. Other business – accident and disability premiums earned and investment income.
4. Shareholder (general) funds – investment income.

Allowable deductions

The allowable deductions for each taxable class of business in Australia included:

1. Acquisition costs (such as commissions) in relation to superannuation business and "other business".
2. Other expenses referable to the business (such as investment expenses).
3. An allocation of the general management expenses of the entity.
4. Accident and disability claims in respect of 'other business' within the statutory funds and the movement during the period in the policy liabilities in respect of that business.

These deductions were allocated to each class of business in accordance with the basis specified in the Income Tax Assessment Act.

New Zealand

New Zealand life business is taxed on the underwriting result and investment income (including gains and losses on sale of investments) less expenses (including commission).

The assessable income for accident and disability business includes risk premiums, investment income and the decrease in the value of risk policy liabilities during the period. The allowable deductions include the increase during the period in the risk policy liabilities, claims, commission and management expenses.

2001
\$'000

2000
\$'000

26. Income Tax (continued)

(c) Income Tax Expense

Prima facie income tax expense calculated at 30% (2000 – 34%) on the profit from ordinary activities for the year ended 31 December:	3,900	5,411
Increase in income tax expense due to:		
– Adoption of MoS liabilities for tax purposes at 30 June 2000	—	34,881
– Other	31	7
Decrease in income tax expense due to:–		
– Overprovision from prior year	(256)	—
– Income not taxable under tax regime to 30 June 2000	—	(3,257)
– Change in tax rate from 34% to 30%	(271)	—
– Recovery of tax losses not previously brought to account	—	(32,489)
– Recovery of non resident controlled entity tax losses not previously brought to account	(150)	(444)
– Unrealised gains not assessable	—	(1,808)
– Other	(254)	(116)
Income tax expense attributable to profit from ordinary activities	3,000	2,185
Total Income Tax Expense		
Provision for deferred income tax	2,996	2,181
Provision for current income tax	4	4
	3,000	2,185
(d) Provision for Current Income Tax		
Opening balance	4	5
Income tax paid	—	(5)
Current year's income tax	5	4
	9	4
(e) Provision for Deferred Income Tax		
Application of transitional provisions	30,550	27,940
Available tax losses	(25,692)	(25,643)
Future year's timing differences	319	(116)
	5,177	2,181
Under the transitional tax provisions, the movement in policy liabilities from the solvency basis to the MoS basis for tax purposes is to be recognised over 5 years. This creates a timing difference which will reverse over that period.		
(f) Future Income Tax Benefit Not Taken to Account		
The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery is not virtually certain.		
Tax losses	774	289
Timing differences	(174)	(73)
	600	216

27. Notes to the Statement of Cash Flows

	2001 \$'000	2000 \$'000
Reconciliation of Cash		
For the purpose of the statement of cash flows, cash includes cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:		
Cash	10,463	16,165
Bills of exchange	67,190	81,614
ING cash pool	6,503	—
	84,156	97,779
Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities		
Profit from ordinary activities after income tax expense	10,000	13,730
Add/(less) items classified as investing/financing activities:		
Profit on sale of investments	(2,340)	(604)
Net appreciation of investments	(13)	(10,001)
Loss on sale of plant & equipment	83	10
Add/(less) non cash items:		
Asset amortisation	10	10
Depreciation	268	280
Net unrealised foreign exchange (gain)/loss	(133)	196
Net cash provided by operating activities before change in assets & liabilities	7,875	3,621
Change in assets and liabilities:		
(Increase)/decrease in receivables	(444)	10,445
Increase/(decrease) in policy liabilities	43,494	(311,906)
(Decrease)/increase in creditors & borrowings	(9,876)	13,249
Increase in provisions	3,258	256
Net cash provided by/(used in) operating activities	44,307	(284,335)

The net cash used in operating activities in 2000 includes a one off claim payment of \$358 million in respect of the termination of a large block reinsurance arrangement. This was offset by the proceeds from the repayment of the deposit held by the ceding company which has been included in net cash inflow from investing activities.

28. Financial Instruments

(a) Interest Rate Risk Exposures

The entity's exposure to interest rate risk and the effective weighted average interest rate (WAIR) for classes of financial assets and financial liabilities is set out below:

	2001 Fixed Interest Maturing in:					Total \$'000	WAIR
	Floating Interest Rate \$'000	1 Year or Less \$'000	Over 1 Year to 5 Years \$'000	More Than 5 Years \$'000	Non- Interest Bearing \$'000		
Financial Assets							
Cash	10,460	—	—	—	2	10,462	3.85%
Receivables	—	—	—	—	6,569	6,569	—
Investments	73,694	20,173	135,767	131,137	133	360,904	5.58%
	84,154	20,173	135,767	131,137	6,704	377,935	
Financial Liabilities							
Creditors	—	—	—	—	1,069	1,069	—
Subordinated debt	17,722	—	—	—	—	17,722	4.82%
	17,722	—	—	—	1,069	18,791	

	2000 Fixed Interest Maturing in:					Total \$'000	WAIR
	Floating Interest Rate \$'000	1 Year or Less \$'000	Over 1 Year to 5 Years \$'000	More Than 5 Years \$'000	Non- Interest Bearing \$'000		
Financial Assets							
Cash	16,159	—	—	—	6	16,165	5.28%
Receivables	—	—	—	—	3,588	3,588	—
Investments	81,696	20,381	143,506	56,340	146	302,069	5.88%
	97,855	20,381	143,506	56,340	3,740	321,822	
Financial Liabilities							
Creditors	—	—	—	—	6,442	6,442	—
Subordinated debt	17,131	—	—	—	—	17,131	4.77%
	17,131	—	—	—	6,442	23,573	

In accordance with the requirements of AASB1033 financial assets exclude plant and equipment and prepayments. Receivables and liabilities arising under insurance contracts have not been included as the standard does not apply to obligations arising under such contracts.

28. Financial Instruments (continued)

(b) Foreign Exchange Risk

The entity has entered into a subordinated debt agreement with Hannover Rückversicherungs-AG. This amount has been invested in long term EURO bonds in order to match the liability with the investment in the same currency. Accordingly no foreign exchange risk attaches to the subordinated debt. (See Note 15(b)).

(c) Credit Risk Exposures

Credit risk represents the loss which would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets, excluding investments, which has been recognised in the statement of financial position is the net market value.

The entity's risk on financial assets (which exclude obligations arising under insurance contracts) is minimal due to the fact that almost the entire amount of receivables consists of accrued interest due from institutions with at least an A rating.

The debt security investments held by the entity have a minimum rating of A. Equity securities consist of an investment in the ING Wholesale Australian Share Trust and are valued at net market value. These securities are subject to the usual market fluctuations as the shares held by the Trust change in value. The short term bank bills held by the entity have been issued by the National Australia Bank Limited, Westpac Banking Corporation, ANZ Banking Group Ltd and Suncorp Metway Ltd. In addition, an investment has been made in the ING Cash Pool Trust. The loan to a staff member is secured by a first mortgage over the subject property.

(d) Net Fair Values of Financial Assets and Liabilities

The entity is a registered life insurer and is required to comply with AASB 1038 "Life Insurance Business". AASB 1038 requires the entity to measure all assets at net market value and all liabilities at net present value.

	2001 \$'000	2000 \$'000
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29. Employee Entitlements

Aggregate employee entitlements, including on costs are:

– Current	570	589
– Non-Current	849	573
	1,419	1,162

The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:

Assumed rate of increase in wage and salary rates	4.5%	4.5%
Discount rate	5.5%	5.0%
Settlement term (years)	7	8

Superannuation Plans

The entity contributes to an employer sponsored defined benefit superannuation plan, as a participating employer on a defined contribution basis to the Mercer Retirement Trust, the insurance industry superannuation fund, Finsuper and where applicable, the minimum pursuant to the Superannuation Guarantee Charge on behalf of Non-Executive Directors.

In the case of the defined benefit plan all employees are entitled to benefits on retirement, disability or death. Contributions to the defined benefit plan are based on the advice of the plan's actuary. The defined benefit plan provides defined benefits based on years of service and final average salary.

The most recent actuarial assessment of the defined benefit plan as at 1 July 1999 was carried out by Mr G. I. McRae, FIAA on 19 November 1999. The actuary concluded that the assets of the defined benefit plan were sufficient to meet all benefits payable in the event of the defined benefit plan's termination or the voluntary or compulsory termination of employment of each employee of the entity who is a member of the defined benefit plan.

29. Employee Entitlements (continued)

Details of employer contributions to the defined benefit plan during the year and contributions payable at 31 December 2001 were as follows:

	2001 \$'000	2000 \$'000
Employer contributions to the defined benefit plan	27	31
Employer contributions payable to the defined benefit plan	—	—

The accrued benefits, assets at net market value and vested benefits of the defined benefit plan are as follows:

Plan Assets At Net Market Value \$'000 (i)	2001			Plan Assets At Net Market Value \$'000 (iii)	2000		
	Total Accrued Benefits \$'000 (ii)	Excess \$'000	Total Vested Benefits \$'000 (i)		Total Accrued Benefits \$'000 (iv)	Excess \$'000	Total Vested Benefits \$'000 (iii)
5,773	5,107	666	3,535	6,481	5,250	1,231	3,550

- (i) Plan assets at net market value and vested benefits have been calculated at 30 June 2001, being the date of the most recent financial statements of the plan.
- (ii) Accrued benefits for 2001 are based on the actuarial review performed as at 1 July 1999 and have been updated on the advice of the actuary to the Plan.
- (iii) Plan assets at net market value and vested benefits for 2000 were obtained from the plan's financial statements at 30 June 2000.
- (iv) Accrued benefits for 2000 are based on the actuarial review performed as at 1 July 1999 and were updated on the advice of the actuary to the Plan.

30. Commitments

Operating Lease Commitments (Non-cancellable)

Future operating lease payments for premises not provided for in the financial statements and payable:

	2001 \$'000	2000 \$'000
Not later than one year	—	58
Later than one year but not later than five years	—	—
	—	58

31. Contingent Liabilities

The entity is involved in legal action relating to claims under policies of insurance. The Directors believe that no material unfavourable outcome will arise from these legal actions in excess of amounts provided for in policy liabilities in the financial statements.

2001
\$'000

2000
\$'000

32. Directors' Remuneration

Total income paid or payable or otherwise made available, to all Directors of Hannover Life Re of Australasia Ltd from the entity or any related party

663

640

The number of Directors of the entity whose total income from the entity or related parties fall within the following bands:

	No.	No.
\$20,000 – \$29,999	3	3
\$40,000 – \$49,999	1	1
\$500,000 – \$509,999	—	1
\$530,000 – \$539,999	1	—

33. Auditor's Remuneration

Remuneration of the auditor of the entity is as follows:

Audit services	166	161
Other services – taxation advice	82	47
	248	208

34. Related Parties

Directors

The names of the persons who were Directors of Hannover Life Re of Australasia Ltd at any time during the financial year are as follows:

Mr D. J. Docherty (Chairman), Mr W. Zeller (Deputy Chairman), Dr W. S. Becke, Mr D. A. K. Ferguson, Mr H. K. Haas, Mr R. Littlewood, Mr A. S. Wickenden, Mr S. Willcock (Managing Director).

Directors' Transactions with the Entity

The entity provided certain reinsurance facilities at commercial rates to Coal & Allied Industries Ltd of which company Mr D J Docherty is a Director.

Investment in Controlled Entity

The Shareholders' Fund has an investment of \$2 in a controlled entity which acts as the Trustee Company of the Hannover Life Re of Australasia Ltd Superannuation Plan.

Related Party Transactions

The following related party transactions occurred during the financial year.

(i) Subordinated Debt

The entity has a subordinated debt agreement with Hannover Re. Details of the agreement are disclosed in Note 15. Interest of \$820,527 (2000: \$783,672) was paid on the loan.

(ii) Retrocession Arrangements With Related Parties

The entity has retrocession arrangements through related parties of the Hannover Re Group of Companies.

34. Related Parties (continued)

(iii) Transactions With Related Parties

The value of transactions during the year with related parties and the aggregate amounts receivable from and payable to related parties are as follows:

	2001 \$'000	2000 \$'000
Transactions during the Year		
Outwards reinsurance expenses	123,293	69,350
Inwards reinsurance premiums	46	1,440
Policy payments	277	8,136
Reinsurance recoveries	68,214	60,896
Other expenses including commission	1	109
Other recoveries including commission	61,175	31,087
Interest received	—	31
Interest paid	821	784
Receivables – Current		
Due from related parties	704	1,125
Retrocession deposits	—	82
Total due from related parties	704	1,207
Creditors – Current		
Other amounts due to related parties	2,033	—
Dividend due to related parties	—	4,250
Total due to related parties	2,033	4,250

Ultimate Chief Entity

The ultimate controlling entity is Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) which has its headquarters in Hannover, Germany.

1. In the opinion of the Directors of Hannover Life Re of Australasia Ltd:
 - (a) the financial statements and notes of the entity are properly drawn up in accordance with AASB 1038-Life Insurance Business, the provisions of the Life Insurance Act 1995, the Prudential Rules, in particular Rule Number 35 on financial statements issued by the Australian Prudential Regulation Authority (APRA) and the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the entity and its performance, as represented by the results of its operations and its cash flows for the year ended 31 December 2001, and;
 - (ii) complying with Accounting Standards, Prudential Rules, the Corporations Regulations and other mandatory professional reporting requirements.
 - (b) the allocation and distribution of the earnings of the statutory funds has been made in accordance with Divisions 5 and 6 of Part 4 of the Life Insurance Act 1995 and the constitution of the entity; and
 - (c) no part of the assets of the statutory funds has been applied or invested in contravention of the provisions of the Life Insurance Act 1995 relating to the application and investment of statutory funds.
2. There are reasonable grounds to believe that the entity including the statutory funds will be able to pay all its debts or claims as and when they become due and payable.

Signed in accordance with a resolution of the Directors:

D. J. DOCHERTY
Chairman

Sydney
28 March 2002

APPOINTED ACTUARY'S STATEMENT

The following opinion relates to the financial statements of Hannover Life Re of Australasia Ltd (the entity) for the year ended 31 December 2001:

In accordance with the Life Insurance Act 1995 (the Act), I state that in my opinion:

- (a) the value of the policy liabilities of the entity and the solvency requirement of the entity have been determined using methods and assumptions consistent with the actuarial standards issued by the Life Insurance Actuarial Standards Board; and
- (b) the allocation and distribution of the profits of the statutory funds of the entity have been made in accordance with Divisions 5 and 6 of Part 4 of the Act and the constitution of the entity; and
- (c) proper records have been kept by the entity from which its policy liabilities and solvency requirement have been able to be properly determined.

M. P. Glase
Appointed Actuary

28 March 2002

Scope

We have audited the financial report of Hannover Life Re of Australasia Ltd for the financial year ended 31 December 2001, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes, and the directors' declaration. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Hannover Life Re of Australasia Ltd is in accordance with:

- a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 31 December 2001 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

D F Findlater
Partner
KPMG

Sydney
28 March 2002

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